

THE LEONARD LETTER

March 21, 2005

QUOTE OF THE WEEK

"Nobody is at liberty to attack several property and to say that he values civilization. The history of the two cannot be disentangled." --- Henry Sumner Maine, British administrator and professor (1822-1888)

UNDER THE DOME

Is Anyone Outraged?

Where is the outrage? Where are the 'hate-speech' cops when you need them? Imagine California's Democrat Attorney General being quoted as saying, "It has a little bit of the sort of odor of Mexican politics. There's a sort of arrogance of power that bothers me." Now, Attorney General Lockyer did not say "Mexican," he said "Austrian" attempting to criticize Governor Schwarzenegger. His criticism ended up being simply an ethnic slur. If he had said "Mexican," or "African," or "Jewish," he would have been called—rightly so—to account for his prejudicial, racial comment by op-ed writers, pundits and representatives of the aggrieved group. I am still waiting for that outrage.

Investor Class Voters

A cosmic shift in political predictability was outlined this week in a fascinating editorial in the Wall Street Journal by pollster John Zogby. Zogby is no Bush stooge -- he predicted a few months before the last election that it was Senator Kerry's to lose. However, Zogby says the data from the 2004 election points to a gigantic realignment in American politics toward the GOP. The change is that how people vote is no longer going to be easily predicted by how pollsters identify them -- whether black, white, Hispanic, Catholic, etc. Rather, how people vote is going to be determined more by how people identify themselves. And Zogby found that by far the most significant self-identifying label for predicting voting is whether people call themselves members of the "investor class." Of those who consider themselves investors, 61% voted for Bush compared to only 39% for Kerry.

While Zogby says that only 43% of Americans identify themselves as investors now, the percentage is growing. I have seen figures that indicate already more than 50% of Americans have a direct stake in the stock market. More significantly, Zogby's numbers indicate that in just about any major demographic you want to look at -- union members, 18-29 year-olds, women, Hispanics -- in every one of these, those who identified themselves as investors went solidly for Bush. The one exception is among single

Americans, where only 42% of those who call themselves investors voted for Bush. But since the number of Americans who are not investors is shrinking, Zogby sees a major realignment along these lines occurring in American politics.

As Zogby sees it, those who identify themselves as investors are not obsessed with the stock market. They are mostly middle income people who just want to put a few bucks away for retirement and their kids' college. This is not a very high threshold to achieve. Zogby concludes that even if Bush loses over his specific plan for Social Security, he may well win the larger war over this party realignment. His message to Democrats: ignore the "ownership society" at your peril.

ISSUE FOCUS: TAXES

*****Sales Taxation: A Clouded Future*****

There is a re-energized debate at the federal level about a national consumption tax. With numerous bills pending, an open mind on the President's part, and now an endorsement from Federal Reserve Chair Alan Greenspan, the likelihood of some new system of taxation grows, and there are strong reasons for it. Consumption taxes, unlike the income tax, do not punish savings and investments. That is important because Americans have such a low savings rate. Consumption taxes are also generally cheaper to collect and less invasive to taxpayers' privacy than the income tax system. Consider that with a consumption tax, you could pay cash at the register and be done with it, whereas with the income tax, the IRS can conduct an audit of your lifestyle and decide whether you are paying enough tax based on how you live.

If the federal government chooses a national sales tax to replace the income tax, it would need to be set at 22%. What would happen to the 45 states, plus the District of Columbia, that have their own sales taxes? The impact would be particularly dramatic in high sales tax states like California. Would we be able to continue charging our average rate of 8% on top of the federal 22%? Think about adding another fifth to the cost of everything you buy in California. Since there are good arguments for imposing a national sales tax and repealing the income tax, there is good reason for state policymakers to begin discussing the ramifications on their own systems of taxation.

*****Terrorism and Taxes*****

In last week's issue, I mentioned that the sale of legal cigarettes is falling in California. The problem is that we are seeing an explosion in illegal cigarettes from those trying to avoid our high tobacco tax. Although we cannot keep up with the black market in cigarettes, legislators with an environmental agenda are proposing a new law to push the price even higher despite the warnings of federal law enforcement officials that the

proceeds from this black market benefit terrorists. The U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives and the U.S. General Accounting Office say that illegal tobacco sales may surpass drug sales as a prime source of funds for terrorists in the United States.

Democrat Assemblymembers Fran Pavley and Paul Koretz are backing the bill to tack on a fee to cigarette sales that will fund litter clean-up. Their reaction to the concerns of law enforcement? Koretz says, "I don't think there's a lack of illegal opportunities for terrorists and others that want to engage in that kind of activity to make their money.

One way or another they will find a way to engage in illegal activities and to raise money for what they are trying to do." Pavley explains, "This is a legitimate fee. I don't think a minor fee on cigarettes is unreasonable." Senator Chesbro adds, "We're not going to stop addressing public health and the environment in California because of terrorists."

So, first these legislators call our federal law enforcement and anti-terror experts liars. Then they argue that even if the anti-terror experts are correct, their concerns should be dismissed in favor of environmental concerns. I could not disagree more strongly with their bill and their rhetoric. We need to reign in the black market for many reasons, the foremost of which is disabling terrorists. That these legislators are not willing to see and support that goal is disturbing.

MISCELLANY

*****License Thoughts*****

After the article last week about Utah creating two drivers' licenses (one for illegal immigrants just to drive and one for other drivers that can also be used for identification purposes), a Leonard Letter reader who is moving from California to Nevada wrote to share his experience. His family found that getting a Nevada drivers' licenses was not that easy. Nevada would not accept their California licenses as identification. They had to also present their birth certificates and/or passports. That says much about the lack of credibility of California drivers' licenses.

*****A Good Read*****

Having concluded with the list of best American biographies from Human Events Online, my book recommendations will move to the category of economics. Now, I know that to many the mere mention of that subject sounds boring. However, there are several excellent books about economic issues that are far from droll. In fact, if high school and college economic classes could be taught in the relevant, interesting manner of these books, then our population would be much better equipped to handle their own personal financial matters as well as make sense of what their elected officials tell them about our collective money matters.

The first economic book I recommend is "Applied Economics" by Thomas Sowell. Sowell grew up in Harlem and dropped out of high school, but after serving in the Marine

Corps during the Korean war, he studied at Harvard. His subsequent life of scholarship led him to the Hoover Institute at Stanford University. “Applied Economics” walks through the basic economic principles that infuse the key issues of today, from immigration to taxes to health care.

BOE AND LEGISLATIVE DATES

February 1 – March 31, 2005 --- Application period for tax amnesty.

March 22, 2005 --- BoE meets in Sacramento.

March 28, 2005 --- Cesar Chavez’s birthday observed.

March 29, 2005 --- Legislature reconvenes from spring recess.

April 12, 2005 --- BoE meets in Sacramento.

April 29, 2005 --- Last day for policy committees to hear and report fiscal bills.

May 20, 2005 --- Last day for policy committees to meet prior to June 6.

NOTABLE DATES/ HISTORY

March 21, 1963 --- The last prisoner was transferred out of the Alcatraz federal prison in San Francisco.

March 22, 1457--- Gutenberg Bible became the first printed book.

March 23, 1806 --- Lewis and Clark began their return journey eastward, after reaching the Pacific Ocean.

March 23, 1992 --- Austrian economist Friedrich von Hayek died.

March 24, 1765 --- Great Britain passed the Quartering Act, requiring the colonies to house 10,000 British troops in public and private buildings.

March 25, 1584 --- The first American colonists set sail from England.

March 26, 1872 --- A 7.8 earthquake shook Owens Valley, California.

March 27, 1512 --- Spanish explorer Juan Ponce de Leon, seeking the fountain of youth, landed in Florida instead.

March 27, 1851 ---California’s Mariposa Battallion entered Yosemite Valley, the first known entry of non-Indian people into the Valley.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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